

**REPORT OF THE AUDIT OF THE
SCOTT COUNTY
FISCAL COURT**

**For The Fiscal Year Ended
June 30, 2003**



**CRIT LUALLEN
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LETTER OF TRANSMITTAL

**AUDIT EXAMINATION OF THE
SCOTT COUNTY FISCAL COURT**

June 30, 2003

The Auditor of Public Accounts has completed the audit of the Scott County Fiscal Court for fiscal year ended June 30, 2003.

We have issued an unqualified opinion on the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of Scott County, Kentucky.

Financial Condition:

The fiscal court had net assets of \$50,316,098 as of June 30, 2003. The fiscal court had unrestricted net assets of \$17,654,608 in its governmental activities as of June 30, 2003, with total net assets of \$50,311,238. In its enterprise fund, total net cash and cash equivalents were \$4,860 with total net assets of \$4,860. The fiscal court had total debt principal as of June 30, 2003 of \$2,660,000 with \$330,000 due within the next year.

Deposits:

The fiscal court's deposits were underinsured and under collateralized by bank securities or bonds.

<u>CONTENTS</u>	PAGE
INDEPENDENT AUDITOR’S REPORT	1
SCOTT COUNTY OFFICIALS	3
MANAGEMENT’S DISCUSSION AND ANALYSIS	5
STATEMENT OF NET ASSETS - MODIFIED CASH BASIS.....	15
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS	18
BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS	23
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS	27
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS	31
STATEMENT OF FUND NET ASSETS - PROPRIETARY FUND - MODIFIED CASH BASIS	35
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS - PROPRIETARY FUND - MODIFIED CASH BASIS	39
STATEMENT OF CASH FLOWS - PROPRIETARY FUND - MODIFIED CASH BASIS.....	43
STATEMENT OF FIDUCIARY NET ASSETS - MODIFIED CASH BASIS	47
NOTES TO FINANCIAL STATEMENTS.....	50
BUDGETARY COMPARISON SCHEDULES	63
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION.....	65
COMBINING BALANCE SHEET - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS.....	69
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS	73
REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS.....	77
APPENDIX A:	
CERTIFICATION OF COMPLIANCE - LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM	



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky
Honorable Ernie Fletcher, Governor
Robbie Rudolph, Secretary
Finance and Administration Cabinet
Honorable George Lusby, Scott County Judge/Executive
Members of the Scott County Fiscal Court

Independent Auditor's Report

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Scott County, Kentucky, as of and for the year ended June 30, 2003, which collectively comprise the County's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the Scott County Fiscal Court. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Fiscal Court Audits issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As described in Note 1, Scott County, Kentucky, prepares its financial statements on a prescribed basis of accounting that demonstrates compliance with the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Scott County, Kentucky, as of June 30, 2003, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with the basis of accounting described in Note 1.

The county has implemented Governmental Accounting Standards Board Statements 33, 34, and 37, as they relate to the modified cash basis of accounting as described in Note 1, which has altered the format and content of the basic financial statements.



To the People of Kentucky
Honorable Ernie Fletcher, Governor
Robbie Rudolph, Secretary
Finance and Administration Cabinet
Honorable George Lusby, Scott County Judge/Executive
Members of the Scott County Fiscal Court

Management's discussion and analysis and budgetary comparison information are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Scott County, Kentucky's basic financial statements. The accompanying supplementary information, combining fund financial statements, are presented for additional analysis and are not a required part of the basic financial statements. The combining fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

In accordance with Government Auditing Standards, we have also issued our report dated September 9, 2004, on our consideration of Scott County, Kentucky's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", with a stylized, flowing script.

Crit Luallen
Auditor of Public Accounts

Audit fieldwork completed -
September 9, 2004

SCOTT COUNTY OFFICIALS

For The Year Ended June 30, 2003

Fiscal Court Members:

George Lusby	County Judge/Executive
Anna Isaacs	Magistrate
Gary Perry	Magistrate
Jim McClanahan	Magistrate
Bobby Rankin	Magistrate
John T. Hoffman	Magistrate
Tom Prather	Magistrate
Jack Wise	Magistrate

Other Elected Officials:

Clay McKnight	County Attorney
Larry Covington	Jailer
Donna Perry	County Clerk
Martha Mitchell	Circuit Court Clerk
Bobby Hammons	Sheriff
Jane Rankin	Property Valuation Administrator
Stan Hughes	Coroner

Appointed Personnel:

Peggy Atkins	County Treasurer
Jane Lucas	Occupational Tax Collector
Nyoma Stakelin	Payroll Officer

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Court House
Built 1877

George Lusby
Scott County Judge/Executive
P.O. Box 973
Court House, Main Street
Georgetown, Kentucky 40324

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(502) 863-7850
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(502) 863-7852

Management's Discussion and Analysis June 30, 2003

Management's discussion and analysis of Scott County's financial performance provides an overview of the County's financial activities for the fiscal year ending June 30, 2003.

Financial Highlights:

The County collected \$18,972,497 in revenue and carried forward a balance of \$16,556,960 for a total of \$32,119,457 revenue in the General Fund. Expenses in the General Fund were \$15,034,160 plus transfers to the Jail Fund in the amount of \$1,510,000 and the Road Fund in the amount of \$1,900,000. This equals a total of \$18,444,160 from the General Fund. The County showed a net gain of \$143,882 for the year. Without the revenue from the Ambulance Service of \$500,000, the County would have spent a portion of its carried over money from the past years. This is a trend that must be watched carefully.

Key points in the General Fund: For the first time since the occupational tax began there was a decrease in the payroll portion of the revenue from the previous year in the amount of \$311,478. There was an increase in the net profit portion of the tax in the amount of \$201,784 over 2001. Except for this one year, however, it was the smallest amount of revenue from this source dating all the way back to 1998.

In addition, the Ambulance Department began turning over their revenue to the County and this amount was approximately \$500,000 for the year. It should be pointed out that with the revenue being sent to the County, the County also paid all of the expenses with a reimbursement from the City for half of the total expense. The expenses for the ambulance department were approximately \$1,200,000.

The two other programs that are federally funded have also seen drastic cutbacks. The foot patrol has decreased from a high of \$77,564 in 1999 to this year a total of \$58,614. The COPS grant that added deputy sheriffs to the County dropped from a high of \$41,179 in 2001 to a low of \$12,257 during this fiscal year.

One other major loss of revenue is the lost of interest on invested money. For the past ten years, the County has averaged about 6% on certificates of deposit. This has dropped to 2% or less in today's market place. Based on CD's of \$15,000,000 this is a loss of \$600,000 a year.

There was a slight increase in revenue in Real Property taxes over the previous year in the amount of \$57,034. Additional increases were in fees collected by various agencies including the County Clerk and Sheriff's Office.

Major expenses for capital improvement included \$496,476 for the reservoir, \$883,197 for Scott County Park, \$747,541 for waterline extensions, and \$500,000 to the City for purchase of the Bradshaw property.

Health insurance increased from \$569,100 to \$1,122,635 as well as other benefits such as Workers Compensation and retirement benefits of nearly \$200,000.

**Scott County
Management's Discussion and Analysis
June 30, 2003
(Continued)**

The County ended the fiscal year with a total of \$16,700,841 in the General Fund. Although this appears to be a large amount, it should be pointed out that several large capital projects are scheduled for the coming year.

They include \$8,500,000 for the reservoir, \$950,000 for the County Attorney's new office, and \$1,000,000 for the new ambulance building and nearly \$1,000,000 for the completion of the waterlines for all roads in the county plus approximately \$600,000 to complete the major improvements to the Scott County Park. One other important project that remains to be completed when the reservoir is finished is the waterline back to the treatment plant. This has an estimated cost of \$9,000,000 which will be jointly funded by the County, City and Water Company.

Two other major projects facing the Court in the next couple of years include joint funding of a swimming pool in the south end of Georgetown at a cost of approximately \$4,000,000 and funding of a new sewer project in the Etter Wood Subdivision at a cost of over \$1,000,000.

At the end of December 2002, the County had one outstanding bond totaling \$3,568,412 including principal and interest.

As Scott County Judge Executive, it is my opinion the County is in excellent financial condition. We must not mistake our carryover balance with the urge to take on new projects. The next two years will see several large one time expense projects completed. Once they are finished, other worthwhile plans should be investigated

In addition to this we must keep careful watch on the falling income. I have watched governments across the state and nation spend all of their funds each year and now that hard times have come many are on the verge of bankruptcy or are borrowing money at unprecedented amounts. My goal and the goal of the Fiscal Court is to operate without incurring outstanding debt. We must continue to provide the best possible service to the people of Scott County but operate within the confine of our income.

The Road Fund collected \$849,919 in revenue and had a carried forward balance of \$93,902. The General Fund transferred \$1,900,000 to the fund for a total of \$2,888,821. Expenses for the Road Fund for the fiscal year totaled \$2,664,687. The largest portion of the Road Fund was spent on road materials which mainly consisted of repaving and upkeep. This amount totaled \$1,109,585. Salaries and benefits accounted for just over \$1,000,000. The County has taken on a massive bridge building program during the past 15 years and now has completed all bridge projects. This past year the amount spent on bridge construction was only \$37,192 as compared to annual expenses of over a quarter million dollars a year in the past.

Although many counties do not budget any additional money to the Road Fund, the Scott County Fiscal Court transferred \$1,900,000 to this fund to insure the best possible roads.

The LGEA Fund is money earmarked for additional road work. The revenue generally runs about \$122,000 per year and if not spent in a given fiscal year, is carried over to the next year. In 2002, the Court spent \$111,176 of this fund on road maintenance.

The Revolving Loan Fund was started 15 years ago as a project the County received a grant from. The money was spent on industrial development and two companies made payments back to the County for the 15-year period. In 2002, the County spent \$20,000 on projects specific to industrial needs. These funds were paid out in 2002 and is no longer part of the County budget.

**Scott County
Management's Discussion and Analysis
June 30, 2003
(Continued)**

The McCracken Fund is a fund for indigent needs. Interest is collected from a perpetual trust with two-thirds going to the fund and one-third added back into the trust. In 2002 the County spent \$2,274 from this fund.

The Hospital Fund is a separate fund that is a result of the selling of the old John Graves Hospital. Interest from the money is invested in CD's, and in 2002, the County spent \$18,505. This money, also, is approved for indigent care with the largest amount being spent for pauper burials and the rest for food and medicine.

The Jail Fund for 2002 had revenues of \$448,695 and expenditures of \$1,698,710. The difference was made up by transferring money from the General Fund. Among the largest expenditures of the jail beside salaries and benefits are medical expenses which totaled \$143,363. Food was nearly as much for a total of \$141,662. Salaries and benefits were approximately \$1,100,000.

During 2002, the revenue for Federal prisoners was only \$6,767. During the past six years, revenues had an average of nearly \$300,000 per year. This loss was caused by the transferring of prisoners from our facility to the new Lexington Detention Center. Although there were added expenses with federal prisoners it was a way to add additional revenue. The jailer has added a couple of programs in order to offset some of the loss but none come close to this loss of revenue.

Jails across the state are all experiencing the same problems of meeting their expenses and our jailer is to be commended for doing an excellent job of containing the cost as much as possible.

Overview of the Financial Statements

This management discussion and analysis is intended to serve as an introduction to Scott County's basic financial statements which are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

GASB 34 requires management to include certain comparison schedules when they are available. These schedules include prior and current comparisons of general revenues by major source, and program expenses by function. This is the first year of implementation and these schedules will be presented next year.

Government-wide Financial Statements

The government-wide financial statements are designed to provide readers with a broad overview of Scott County's finances, in a manner similar to a private-sector business.

The *Statement of Net Assets* presents information on all of Scott County's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of Scott County's is improving or deteriorating.

The *Statement of Activities* presents information showing how the government's net assets changed during the fiscal year. All changes in net assets are reported on a modified cash basis of accounting. Basis of accounting is a reference to when financial events are recorded, such as the timing for recognizing revenues, expenses, and related assets and liabilities.

**Scott County
Management's Discussion and Analysis
June 30, 2003
(Continued)**

Under the County's modified cash basis of accounting, revenues and expenses and related assets and liabilities are recorded when they result from a cash transaction, except for the recording of depreciation expenses on capital assets in the government-wide financial statements for all activities and in the fund financial statements for the proprietary fund financial statements.

As a result of the use of this modified cash basis of accounting, certain assets and their related revenues (such as amounts billed for services provided, but not collected) and accounts payable (expenses for goods and services received but not paid) or compensated absences are not recorded.

Both the government-wide financial statements distinguish functions of the County that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). Scott County's governmental activities include general government, protection to persons and property, roads, recreation, and social services. The County has one business-type activity – the operation of a jail canteen.

The government-wide financial statements include not only Scott County itself (known as the primary government), but also legally separate entities, which have a significant operational or financial relationship with the County. Scott County has one such entity, the Scott County Public Properties Corporation. It is known as a blended component unit.

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. Scott County, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of Scott County can be divided into two broad categories: governmental funds and proprietary funds.

Governmental Funds

Governmental Funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

Scott County has seven individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the government fund statement of revenues, expenditures, and changes in fund balances for the General Fund, Road Fund, and the Public Properties Corporation Fund, which are the major funds of the County. The Jail Fund, Local Government Economic Assistance Fund, McCracken Fund and Hospital Fund are considered non-major funds.

**Scott County
Management's Discussion and Analysis
June 30, 2003
(Continued)**

Fund Financial Statements (Continued)

Governmental Funds (Continued)

Scott County adopts an annual appropriated budget for its major governmental funds. A budgetary comparison statement has been provided for each of these funds to demonstrate compliance with their budgets.

Proprietary Funds

Proprietary funds provide the same type of information as the business-type activities column on the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the Jail Canteen Fund.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

Government-wide Financial Analysis

Net assets may serve over time as a useful indicator of a government's financial position. In future years, Scott County will include additional information as part of the government-wide financial analysis but in this first year of implementation of GASB 34, only a comparison of current and capital assets, long-term liabilities and net assets will be included.

	Governmental Activities-2003	Governmental Activities-2002
Current Assets	\$17,654,608	\$17,290,292
Capital Assets, net of accumulated depreciation	35,316,630	36,272,565
Long-term Liabilities, including current portion	2,660,000	2,975,000
Net Assets	\$50,311,238	\$50,587,857

The financial analysis of Scott County's governmental activities indicate an insignificant change in net assets, with the difference resulting from depreciation expense charged in FY 2003, a reduction in debt due to scheduled payment of principal and interest and the purchase of capital assets during the year in the amount of \$687,635.

Financial Analysis of Scott County's Funds

As noted earlier, Scott County has seven governmental funds, three of which are major. Those include the General Fund, the Road Fund and the Public Properties Corporation Fund. The other governmental funds, considered non-major funds are the Jail Fund, the Local Government Economic Assistance Fund, the McCracken Fund and the Hospital Fund. This discussion will focus on the three major funds. Additional financial information on the major and non-major funds can be found in the financial statements that follow.

**Scott County
Management's Discussion and Analysis
June 30, 2003
(Continued)**

Financial Analysis of Scott County's Funds (Continued)

The General Fund is the chief operating fund of Scott County. At the end of June 30, 2003, the unreserved fund balance was \$16,658,842 and the reserved fund balance was \$42,000. Unreserved fund balance represents the amount of fund balance that is unrestricted and is available for appropriation. The reserved fund balance represents the amount not available for appropriations because it will be used to pay encumbrances already incurred by the fiscal court. The General Fund had \$18,972,497 in revenues, with approximately 74% of the revenue coming from tax collections. The remaining 25% came from various other sources. The General Fund also had \$15,034,160 in expenditures, with approximately 45% spent on general government and administration and 25% spent on protection to persons and property. The remaining 30% was spent on various functions, including recreation and culture and capital projects.

The Road Fund is dedicated to county road and bridge construction as well as maintenance of those assets. At the end of June 30, 2003, the unreserved fund balance was \$197,621 and the reserved fund balance was \$26,513. Unreserved fund balance represents the amount of fund balance that is unrestricted and is available for appropriation. The reserved fund balance represents the amount not available for appropriations because it will be used to pay encumbrances already incurred by the fiscal court. The Road Fund had \$894,919 in revenues, with approximately 86% of the revenue coming from intergovernmental revenues. The remaining 14% came from various other sources. The Road Fund also had \$2,664,687 in expenditures, with approximately 99% (including salaries of the road department) spent on the road function and administration and the remaining 1% spent on capital projects.

The Public Properties Corporation Fund is used to accumulate resources for and payment of general long-term debt principal and interest payments. The unreserved fund balance was \$205 and represents the amount that is available for appropriation. The only revenue recognized in the fund for the year was \$205 in interest and \$454,751 was paid in long-term debt principal and interest payments for the year. The funding to pay these long-term debt principal and interest payments comes from transfers made from other governmental funds.

General Fund Budgetary Highlights

Actual operating revenues were \$5,059,595 more than originally budgeted by Fiscal Court. This increase was primarily due to tax revenues and miscellaneous revenues being more than anticipated.

Actual operating expenditures were \$5,429,794 less than the amount originally budgeted by fiscal court primarily due to money being budgeted for capital projects but not being spent in fiscal year 2004.

Capital Assets and Debt Administration

Capital Assets

Scott County's investment in capital assets for its government and business activities as of June 30, 2003, amounts to \$35,316,630 (net of accumulated depreciation). This investment in capital assets includes land, buildings, improvements to land other than buildings, machinery and equipment, vehicles and infrastructure. The county has elected to report infrastructure per GASB 34 provisions.

**Scott County
Management's Discussion and Analysis
June 30, 2003
(Continued)**

Capital Assets and Debt Administration (Continued)

Capital Assets (Continued)

Major capital asset events during the 2003 fiscal year included the purchase of a road grader in the amount of \$140,233 and the purchase of the reservoir land in the amount of \$409,798.

Additional information on the county's capital assets can be found in Note 3 of this report.

Long-Term Debt

At the end of the 2003 fiscal year, Scott County had total long-term debt outstanding \$2,660,000. The amount of this debt due within one year is \$330,000 and \$2,330,000 is due in subsequent years. This debt was issued for the advanced refunding of outstanding bonds issued in 1990. This debt is described in Note 4 of the notes to the financial statements.

Other Matters

The following factors are expected to have a significant effect on the County's financial position or results operations and were taken into account in developing the 2004 fiscal year budget.

- The 2004 fiscal year adopted budget continues most services at current levels with the exception for which federal or state funding is decreasing or for projects which have been completed or are nearing completion.
- Program cuts at the state level and loss of interest may have a negative impact on funding for county programs. The fiscal court may decide to alter the operations or funding of county operations impacted by these revenue shortfalls.

Request for Information

This financial report is designed to provide a general overview of Scott County's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this or requests for additional financial information should be addressed to the Scott County Treasurer, PO Box 973, Georgetown, KY 40324.

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SCOTT COUNTY
STATEMENT OF NET ASSETS - MODIFIED CASH BASIS

For The Year Ended June 30, 2003

SCOTT COUNTY
STATEMENT OF NET ASSETS - MODIFIED CASH BASIS

For The Year Ended June 30, 2003

	Primary Government		
	Governmental	Business-Type	
	Activities	Activities	Totals
ASSETS			
Current Assets:			
Cash and Cash Equivalents	\$ 17,654,608	\$ 4,860	\$ 17,659,468
Total Current Assets	<u>\$ 17,654,608</u>	<u>\$ 4,860</u>	<u>\$ 17,659,468</u>
Noncurrent Assets:			
Capital Assets - Net of Accumulated Depreciation			
Land and Land Improvements	4,319,833		4,319,833
Buildings	14,085,995		14,085,995
Other Equipment	1,192,403		1,192,403
Vehicles and Equipment	1,744,822		1,744,822
Infrastructure Assets - Net of Depreciation	13,973,577		13,973,577
Total Noncurrent Assets	<u>\$ 35,316,630</u>	<u>\$ 0</u>	<u>\$ 35,316,630</u>
Total Assets	<u>\$ 52,971,238</u>	<u>\$ 4,860</u>	<u>\$ 52,976,098</u>
LIABILITIES			
Current Liabilities:			
Due Within One Year	330,000		330,000
Noncurrent Liabilities:			
Due in More Than One Year	2,330,000		2,330,000
Total Liabilities	<u>\$ 2,660,000</u>	<u>\$ 0</u>	<u>\$ 2,660,000</u>
NET ASSETS			
Invested in Capital Assets, Net of Related Debt	\$ 32,656,630	\$	\$ 32,656,630
Restricted For:			
Nonexpendable	81,510		81,510
Expendable	2,697		2,697
Unrestricted	17,570,401	4,860	17,575,261
Total Net Assets	<u>\$ 50,311,238</u>	<u>\$ 4,860</u>	<u>\$ 50,316,098</u>

The accompanying notes are an integral part of the financial statements.

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SCOTT COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS
For The Year Ended June 30, 2003

SCOTT COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS

For The Year Ended June 30, 2003

		Program Revenues Received		
Functions/Programs Reporting Entity	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government:				
Governmental Activities:				
General Government	\$ 7,685,373	\$ 232,079	\$	\$
Protection to Persons and Property	5,464,265	736,800	849,727	
General Health and Sanitation	99,414	83,100		
Social Services	936,607			
Recreation and Culture	1,679,158			
Roads	3,161,881		830,535	
Interest on Long-Term Debt	140,553			
Capital Projects	1,499,782			
Total Governmental Activities	20,667,033	1,051,979	1,680,262	
Business-type Activities:				
Jail Canteen Fund	7,369	9,136		
Total Business-type Activities	7,369	9,136		
Total Primary Government	\$ 20,674,402	\$ 1,061,115	\$ 1,680,262	\$

General Revenues:

Taxes:

Real Property Taxes

Personal Property Taxes

Motor Vehicle Taxes

Other Taxes

Excess Fees

Miscellaneous Revenues

Accrued Interest Received

Total General Revenues and Transfers

Change in Net Assets

Net Assets - Beginning (Restated)

Net Assets - Ending

The accompanying notes are an integral part of the financial statements.

SCOTT COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS
For The Year Ended June 30, 2003
(Continued)

Net (Disbursements) Receipts and Changes in Net Assets		
Primary Government		
Governmental Activities	Business-Type Activities	Totals
\$ (7,453,294)	\$	\$ (7,453,294)
(3,877,738)		(3,877,738)
(16,314)		(16,314)
(936,607)		(936,607)
(1,679,158)		(1,679,158)
(2,331,346)		(2,331,346)
(140,553)		(140,553)
(1,499,782)		(1,499,782)
(17,934,792)		(17,934,792)
	1,767	1,767
	1,767	1,767
\$ (17,934,792)	\$ 1,767	\$ (17,933,025)
1,262,071		1,262,071
32,052		32,052
371,446		371,446
12,304,073		12,304,073
1,593,342		1,593,342
1,448,248	89	1,448,337
646,941		646,941
17,658,173	89	17,658,262
(276,619)	1,856	(274,763)
50,587,857	3,004	50,590,861
\$ 50,311,238	\$ 4,860	\$ 50,316,098

The accompanying notes are an integral part of the financial statements.

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SCOTT COUNTY
BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
For The Year Ended June 30, 2003

SCOTT COUNTY
BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

For The Year Ended June 30, 2003

	General Fund	Road And Bridge Fund	Public Properties Corporation Fund	Non- Major Funds	Total Governmental Funds
ASSETS					
Cash and Cash Equivalents	\$16,700,842	\$ 224,134	\$ 205	\$ 729,427	\$ 17,654,608
Total Assets	<u>\$16,700,842</u>	<u>\$ 224,134</u>	<u>\$ 205</u>	<u>\$ 729,427</u>	<u>\$ 17,654,608</u>
FUND BALANCES					
Fund Balances:					
Reserved for:					
Encumbrances	\$ 42,000	\$ 26,513	\$	\$ 1,000	\$ 69,513
Permanent Fund				81,510	81,510
Unreserved:					
General Fund	16,658,842				16,658,842
Permanent Fund				2,697	2,697
Special Revenue Fund		197,621		644,220	841,841
Debt Service Fund			205		205
Total Fund Balances	<u>\$ 16,700,842</u>	<u>\$ 224,134</u>	<u>\$ 205</u>	<u>\$ 729,427</u>	<u>\$ 17,654,608</u>
Total Liabilities and Fund Balances	<u>\$ 16,700,842</u>	<u>\$ 224,134</u>	<u>\$ 205</u>	<u>\$ 729,427</u>	<u>\$ 17,654,608</u>

Reconciliation of the Balance Sheet - Governmental Funds to the Statement of Net Assets:

Total Fund Balances	\$ 17,654,608
Amounts Reported for Governmental Activities in the Statement of Net Assets Are Different Because:	
Capital Assets Used in Governmental Activities Are Not Financial Resources and Therefore Are Not Reported in the Funds.	48,186,083
Accumulated Depreciation	(12,869,453)
Long-term Debt Is Not Due and Payable in the Current Period and, Therefore, Is Not Reported in the Funds.	
Bonded Debt	<u>(2,660,000)</u>
Net Assets of Governmental Activities	<u>\$ 50,311,238</u>

The accompanying notes are an integral part of the financial statements.

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SCOTT COUNTY
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

For The Year Ended June 30, 2003

SCOTT COUNTY
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

For The Year Ended June 30, 2003

	General Fund	Road And Bridge Fund	Public Properties Corporation Fund	Non- Major Funds	Total Governmental Funds
REVENUES					
Taxes	\$ 13,950,399	\$	\$	\$	\$ 13,950,399
Excess Fees	1,593,342				1,593,342
Licenses and Permits	231,378				231,378
Intergovernmental	735,157	766,044		418,838	1,920,039
Charges for Services	520,733			52,010	572,743
Miscellaneous	1,445,895	126,054		29,470	1,601,419
Interest	495,593	2,821	205	22,475	521,094
Total Revenues	<u>18,972,497</u>	<u>894,919</u>	<u>205</u>	<u>522,793</u>	<u>20,390,414</u>
EXPENDITURES					
General Government	4,085,135				4,085,135
Protection to Persons and Property	3,841,243			1,366,478	5,207,721
General Health and Sanitation	486,361				486,361
Social Services	902,442			34,165	936,607
Recreation and Culture	1,598,147				1,598,147
Roads		2,272,907		36,250	2,309,157
Debt Service	802		454,751		455,553
Capital Projects	1,462,589	37,193			1,499,782
Administration	2,657,441	354,587	1,454	434,153	3,447,635
Total Expenditures	<u>15,034,160</u>	<u>2,664,687</u>	<u>456,205</u>	<u>1,871,046</u>	<u>20,026,098</u>
Excess (Deficiency) of Revenues Over Expenditures Before Financing Sources (Uses)	<u>3,938,337</u>	<u>(1,769,768)</u>	<u>(456,000)</u>	<u>(1,348,253)</u>	<u>364,316</u>
Other Financing Sources (Uses)					
Transfers from Other Funds		1,900,000	453,750	1,510,000	3,863,750
Transfers to Other Funds	(3,794,455)			(69,295)	(3,863,750)
Total Other Financing Sources (Uses)	<u>(3,794,455)</u>	<u>1,900,000</u>	<u>453,750</u>	<u>1,440,705</u>	
Net Change in Fund Balances	143,882	130,232	(2,250)	92,452	364,316
Fund Balances - Beginning	16,556,960	93,902	2,455	636,975	17,290,292
Fund Balances - Ending	<u>\$ 16,700,842</u>	<u>\$ 224,134</u>	<u>\$ 205</u>	<u>\$ 729,427</u>	<u>\$ 17,654,608</u>

The accompanying notes are an integral part of the financial statements.

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**SCOTT COUNTY
RECONCILIATION OF THE STATEMENT OF
REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS**

For The Year Ended June 30, 2003

SCOTT COUNTY
RECONCILIATION OF THE STATEMENT OF
REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS

For The Year Ended June 30, 2003

Reconciliation to the Statement of Activities:

Net Change in Fund Balances - Total Governmental Funds	\$	364,316
--	----	---------

Governmental Funds Report Capital Outlays as Expenditures. However, in the Statement of Activities the Cost of those Assets Is Allocated Over Their Estimated Useful Lives and Reported as Depreciation Expense.

Capital Outlay		687,635
----------------	--	---------

Depreciation Expense		(1,643,570)
----------------------	--	-------------

Lease and Bond Principal Payments Are Expensed in the Governmental Funds as a Use of Current Financial Resources.

Bond Payments		315,000
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Change in Net Assets of Governmental Activities	\$	(276,619)
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SCOTT COUNTY
STATEMENT OF FUND NET ASSETS - PROPRIETARY FUND - MODIFIED CASH BASIS
For The Year Ended June 30, 2003

SCOTT COUNTY
STATEMENT OF FUND NET ASSETS - PROPRIETARY FUND - MODIFIED CASH BASIS

For The Year Ended June 30, 2003

	<u>Business-Type Activities - Enterprise Fund</u>
	<u>Jail Canteen Fund</u>
Assets	
Current Assets:	
Cash and Cash Equivalents	\$ 4,860
Total Assets	<u>4,860</u>
Net Assets	
Unrestricted	<u>4,860</u>
Total Net Assets	<u><u>\$ 4,860</u></u>

The accompanying notes are an integral part of the financial statements.

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SCOTT COUNTY
STATEMENT OF REVENUES, EXPENSES, AND
CHANGES IN FUND NET ASSETS - PROPRIETARY FUND - MODIFIED CASH BASIS

For The Year Ended June 30, 2003

SCOTT COUNTY
STATEMENT OF REVENUES, EXPENSES, AND
CHANGES IN FUND NET ASSETS - PROPRIETARY FUND - MODIFIED CASH BASIS

For The Year Ended June 30, 2003

	<u>Business-Type Activities - Enterprise Fund</u>
	<u>Jail Canteen Fund</u>
Operating Revenues	
Canteen Receipts	\$ 9,136
Total Operating Revenues	<u>\$ 9,136</u>
Operating Expenses	
Educational and Recreational	\$ 2,125
Miscellaneous	<u>5,244</u>
Total Operating Expenses	<u>\$ 7,369</u>
Operating Income (Loss)	<u>\$ 1,767</u>
Nonoperating Revenues (Expenses)	
Inmate Pay from State	\$ 5,109
Inmate Refunds	<u>(5,020)</u>
Total Nonoperating Revenues (Expenses)	<u>\$ 89</u>
Change in Net Assets	\$ 1,856
Total Net Assets - Beginning	<u>3,004</u>
Total Net Assets - Ending	<u><u>\$ 4,860</u></u>

The accompanying notes are an integral part of the financial statements.

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SCOTT COUNTY
STATEMENT OF CASH FLOWS - PROPRIETARY FUND - MODIFIED CASH BASIS
For The Year Ended June 30, 2003

SCOTT COUNTY
STATEMENT OF CASH FLOWS - PROPRIETARY FUND - MODIFIED CASH BASIS

For The Year Ended June 30, 2003

	<u>Business-Type Activities - Enterprise Fund</u>
	<u>Jail Canteen Fund</u>
Cash Flows from Operating Activities	
Receipts from Customers	\$ 9,136
Educational and Recreational	(2,125)
Miscellaneous	<u>(5,244)</u>
Net Cash Provided by Operating Activities	<u>1,767</u>
Cash Flows from Noncapital Financing Activities	
Inmate Pay from State	5,109
Inmate Refunds on Accounts	<u>(5,020)</u>
Net Cash Provided by Noncapital Financing Activities	<u>89</u>
Net Increase in Cash and Cash Equivalents	1,856
Cash and Cash Equivalents - July 1	<u>3,004</u>
Cash and Cash Equivalents - June 30	<u><u>\$ 4,860</u></u>

The accompanying notes are an integral part of the financial statements.

SCOTT COUNTY
 STATEMENT OF CASH FLOWS - PROPRIETARY FUND - MODIFIED CASH BASIS
 For The Year Ended June 30, 2003
 (Continued)

	Business-Type Activities - Enterprise Fund
Reconciliation of Operating Income to Net Cash Provided by Operating Activities	Jail Canteen Fund
Operating Income	\$ 1,767
Adjustments to Reconcile Operating Income To Net Cash Provided by Operating Activities	
Total Cash Provided By Operating Activities	<u>\$ 1,767</u>

The accompanying notes are an integral part of the financial statements.

SCOTT COUNTY
STATEMENT OF FIDUCIARY NET ASSETS - MODIFIED CASH BASIS
For The Year Ended June 30, 2003

SCOTT COUNTY
STATEMENT OF FIDUCIARY NET ASSETS - MODIFIED CASH BASIS

For The Year Ended June 30, 2003

	<u>Agency Fund</u>
	<u>Jail Inmate Account</u>
Assets	
Current Assets:	
Cash	\$ 7,258
 Total Assets	 \$ 7,258
 Liabilities	
Amounts Held in Custody for Others	7,258
 Total Liabilities	 \$ 0
 Net Assets	
Unrestricted	_____
 Total Net Assets	 \$ 0

The accompanying notes are an integral part of the financial statements.

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**INDEX FOR NOTES
TO THE FINANCIAL STATEMENTS**

NOTE 1.	SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES	50
NOTE 2.	DEPOSITS	56
NOTE 3.	CAPITAL ASSETS	57
NOTE 4.	LONG-TERM DEBT	58
NOTE 5.	OPERATING-LEASE AGREEMENT	58
NOTE 6.	EMPLOYEE RETIREMENT SYSTEM.....	58
NOTE 7.	INSURANCE	59
NOTE 8.	CHANGES IN ACCOUNTING PRINCIPLES AND PRIOR PERIOD ADJUSTMENTS	59
NOTE 9.	ESTIMATED INFRASTRUCTURE HISTORICAL COST	59

SCOTT COUNTY
NOTES TO FINANCIAL STATEMENTS

June 30, 2003

Note 1. Summary of Significant Accounting Policies

A. Basis of Presentation

The county presents its government-wide and fund financial statements utilizing a modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this basis of accounting, assets, liabilities, and related revenues and expenditures are recorded when they result from cash transactions, with a few exceptions. This modified cash basis recognizes revenues when received and expenditures when paid. Property tax receivables, accounts payable, compensated absences, and donated assets, among other items, are not reflected in the financial statements.

Encumbrances lapse at year-end and are not reflected on the Statement of Net Assets and Statement of Activities; however encumbrances are reflected on the Balance Sheet - Governmental Funds as part of the fund balance (Reserved for Encumbrances).

The State Local Finance Officer does not require the county to report capital assets and infrastructure; however the value of these assets is included in the Statement of Net Assets and their corresponding depreciation expenses are included on the Statement of Activities.

B. Reporting Entity

The financial statements of Scott County include the funds, agencies, boards, and entities for which the fiscal court is financially accountable. Financial accountability, as defined by Section 2100 of the Governmental Accounting Standards Board (GASB) Codification of Governmental Accounting and Financial Reporting Standards, as amended by GASB 14, was determined on the basis of the government's ability to significantly influence operations, select the governing authority, participate in fiscal management and the scope of public service. Consequently, the reporting entity includes organizations that are legally separate from the primary government. Legally separate organizations are reported as component units if either the county is financially accountable or whose exclusion would cause the county's financial statements to be misleading or incomplete. Component units may be blended or discretely presented. Blended component units either provide their services exclusively or almost entirely to the primary government, or their governing bodies are substantively the same as the primary government. All other component units are discretely presented.

Blended Component Units

The following legally separate organization provides its services exclusively to the primary government and the fiscal court is able to impose its will on this organization. This organization's balances and transactions are reported as though it is part of the county's primary government using the blending method.

Scott County Public Properties Corporation

The Scott County Public Properties Corporation is established for the purpose of providing long-term financing for approved projects. The Scott County Fiscal Court is financially accountable for the component unit as part of the reporting entity and its financial activity is blended with that of the fiscal court.

SCOTT COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2003
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

C. Scott County Constitutional Elected Officials Not Part Of Scott County, Kentucky

The Kentucky constitution provides for election of the officials listed below from the geographic area constituting Scott County. Pursuant to state statute, these officials perform various services for the Commonwealth of Kentucky, its judicial courts, the fiscal court, various cities and special districts within the county, and the board of education. In exercising these responsibilities, however, they are required to comply with state laws. Audits of their financial statements are issued separately and individually and can be obtained from their respective administrative offices.

- Circuit Court Clerk
- County Attorney
- Property Valuation Administrator
- County Clerk
- County Sheriff

D. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the primary government and its non-fiduciary component units. For the most part, the effect of interfund activities has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on sales, fees, and charges for support. Business-type revenues come mostly from fees charged to external parties for goods or services. Fiduciary funds are not included in these financial statements due to the unavailability of fiduciary funds to aid in the support of government programs.

The statement of net assets presents the reporting entity's non-fiduciary assets and liabilities, the difference between the two being reported as net assets. Net assets are reported in three categories: 1) invested in capital assets, net of related debt - consisting of capital assets, net of accumulated depreciation and reduced by outstanding balances for debt related to the acquisition, construction, or improvement of those assets. 2) restricted net assets - resulting from constraints placed on net assets by creditors, grantors, contributors, and other external parties, including those constraints imposed by law through constitutional provisions or enabling legislation. 3) unrestricted net assets - those assets that do not meet the definition of restricted net assets or invested in capital assets.

The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services, or privileges provided by a given function 2) operating grants and contributions and 3) capital grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Internally dedicated resources such as taxes and unrestricted state funds are reported as general revenues.

SCOTT COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2003
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

D. Government-wide and Fund Financial Statements (Continued)

Funds are characterized as either major or non-major funds. Major funds are those funds whose assets, liabilities, revenues, or expenditures/expenses are at least ten percent of the corresponding total (assets, liabilities, etc.) for all funds or type (governmental or proprietary funds) and whose total assets, liabilities, revenues, and expenditures/expenses are a least five percent of the corresponding total for all governmental and enterprise funds combined. The fiscal court may also designate any fund as a major fund.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds. Major individual governmental funds and major enterprise funds are reported as separate columns in the financial statements.

Governmental Funds

The primary government reports the following major governmental funds:

General Fund - This is the primary operating fund of the Fiscal Court. It accounts for all financial resources of the general government, except where the Governor's Office for Local Development requires a separate fund or where management requires that a separate fund be used for some function.

Road Fund - This fund is for road and bridge construction and repair. The primary source of revenue for this fund is state payments for truck license distribution, municipal road aid, and transportation grants. The Governor's Office for Local Development requires the Fiscal Court to maintain these receipts and expenditures separately from the General Fund.

Public Properties Fund – This fund is for the accumulation of resources for, and the payment of general long-term debt principal and interest.

The primary government also has the following non-major governmental funds: Jail Fund, Local Government Economic Assistance Fund, McCracken Fund, and Hospital Fund. The Jail Fund, Local Government Economic Assistance Fund and the Hospital Fund are Special Revenue Funds and the McCracken Fund is a Permanent Fund.

Generally, and except as otherwise provided by law, property taxes are assessed as of January 1, levied (mailed) September 15, due at discount November 1, due at face value December 31, delinquent January 1 following the assessment, and subject to lien and sale February 1 following the delinquency date.

SCOTT COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2003
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

D. Government-wide and Fund Financial Statements (Continued)

Proprietary Funds

All proprietary funds are reported using the economic resources measurement focus and the modified cash basis of accounting. Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with proprietary funds' principal ongoing operations. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses. The principal operating revenues of the county's enterprise funds are charges to customers for sales in the Jail Canteen Fund. Operating expenses for the enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. The government has elected not to adopt Financial Accounting Standards Board (FASB) Statements on Interpretations issued after November 30, 1989, unless the Governmental Accounting Standards Board (GASB) specifically adopts such FASB Statements or Interpretations.

The primary government reports the following major proprietary fund:

Jail Canteen Fund - The canteen operations are authorized pursuant to KRS 441.135(1), which allows the jailer to sell snacks, sodas, and other items to inmates. The profits generated from the sale of those items are to be used for the benefit or recreation of the inmates. KRS 441.135(2) requires the jailer to maintain accounting records and report annually to the county treasurer the receipts and disbursements of the Jail Canteen Fund.

Fiduciary Funds

All fiduciary funds are reported using the economic resources measurement focus and the modified cash basis of accounting. Fiduciary funds report only those resources held in a trust or custodial capacity for individuals, private organizations, or other governments. The county's agency fund is used to account for monies held by the county in the Jail Canteen Inmate Account for custodial purposes only. Unlike other funds, the agency fund reports assets and liabilities only; therefore, it has no measurement focus.

E. Deposits and Investments

The government's cash and cash equivalents are considered to be cash on hand, demand deposits, certificates of deposit, and short-term investments with original maturities of three months or less from the date of acquisition.

KRS 66.480 authorizes the county to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

SCOTT COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2003
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

F. Capital Assets

Capital assets, which include land, land improvements, buildings, furniture and office equipment, building improvements, machinery, equipment, and infrastructure assets (roads and bridges) that have a useful life of more than one reporting period based on the government's capitalization policy, are reported in the applicable governmental or business-type activities of the government-wide financial statements. Such assets are recorded at historical cost or estimated historical cost when purchased or constructed.

Cost of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset's life are not capitalized. Land and Construction In Progress are not depreciated. Interest incurred during construction is not capitalized. Capital assets and infrastructure are depreciated using the straight-line method of depreciation over the estimated useful life of the asset.

	Capitalization Threshold	Useful Life (Years)
Land Improvements	\$ 5,000	20 - 25
Buildings and Building Improvements	\$ 5,000	10 - 60
Machinery and Equipment	\$ 5,000	3 - 25
Vehicles	\$ 5,000	3 - 12
Infrastructure	\$ 5,000	20 - 40

G. Long-term Obligations

In the government-wide financial statements and proprietary fund types in the fund financial statements, long term debt and other long-term obligations are reported as liabilities in the applicable financial statements. The principal amount of bonds, notes and financing obligations are reported.

In the fund financial statements, governmental fund types recognize bond interest, as well as bond issuance costs when received or when paid, during the current period. The principal amount of the debt and interest are reported as expenditures. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as expenditures. Debt proceeds are reported as other financing sources.

H. Fund Equity

In the fund financial statements, the difference between the assets and liabilities of governmental funds is reported as fund balance. Fund balance is divided into reserved and unreserved components, with unreserved considered available for new spending. Unreserved fund balances may be divided into designated and undesignated portions. Designations represent fiscal court's intended use of the resources and should reflect actual plans approved by the fiscal court.

Governmental funds report reservations of fund balance for amounts that are legally restricted by outside parties for use for a specific purpose, long-term receivables, and encumbrances.

SCOTT COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2003
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

H. Fund Equity (Continued)

“Reserved for Encumbrances” are purchase orders that will be fulfilled in a subsequent fiscal period. Although the purchase order or contract creates a legal commitment, the fiscal court incurs no liability until performance has occurred on the part of the party with whom the fiscal court has entered into the arrangement. When a government intends to honor outstanding commitments in subsequent periods, such amounts are encumbered. Encumbrances lapse at year-end and are not reflected on the Statement of Net Assets and Statement of Activities; however, encumbrances are reflected on the Balance Sheet - Governmental Funds as part of the fund balance.

The McCracken Fund was established by the will of John C. McCracken in 1835. The will provided that the fund be held in perpetuity and that one-third of the proceeds and profits be used to increase and augment the principal. The remaining two-thirds of the proceeds and profits are to be used at the Fiscal Court’s discretion to alleviate the misfortunes and bettering the conditions of poor and indigent persons.

I. Budgetary Information

Annual budgets are adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer. Formal budgets are not adopted for the Public Properties Corporation Fund, the Jail Canteen Profit Account, and the Jail Canteen Inmate Account.

The State Local Finance Officer does not require the Public Properties Corporation Fund to be budgeted. Bond indentures and other relevant contractual provisions require specific annual payments to these funds and these transfers are budgeted in the governmental funds.

The State Local Finance Officer does not require the Jail Canteen Profit Account and the Jail Canteen Inmate Account to be budgeted because the fiscal court does not approve the expenditures made from these funds.

The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

J. Related Organizations and Joint Ventures

A related organization is an entity for which a primary government is not financially accountable. It does not impose will or have a financial benefit or burden relationship, even if the primary government appoints a voting majority of the related organization’s governing board. Based on these criteria, the following are considered related organizations of Scott County Fiscal Court: Georgetown-Scott County Tourism and the Scott County Public Library.

SCOTT COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2003
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

J. Related Organizations and Joint Ventures (Continued)

A legal entity or other organization that results from a contractual agreement and that is owned, operated, or governed by two or more participants as a separate activity subject to joint control, in which the participants retain (a) an ongoing financial interest or (b) an ongoing financial responsibility is a joint venture. Based upon these criteria, the following are considered joint ventures of the Scott County Fiscal Court: Parks and Recreation, and Planning and Zoning.

Note 2. Deposits

The county maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the county and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. The county entered into a written agreement with the depository institution and met requirements (a), (b), and (c) stated above. However, as of June 30, 2003, the collateral and FDIC insurance together did not equal or exceed the amount on deposit, leaving \$40,107 of public funds uninsured and unsecured.

	<u>Bank Balance</u>
FDIC Insured	\$ 100,000
Collateralized with securities held by the County's agent in the County's name	3,191,403
Uncollateralized and uninsured - SKyPAC	<u>40,107</u>
Total	<u><u>\$ 3,331,510</u></u>

SCOTT COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2003
(Continued)

Note 3. Capital Assets

Capital asset activity for the year ended June 30, 2003, was as follows:

	Reporting Entity			
	Beginning Balance	Increases	Decreases	Ending Balance
Primary Government:				
<u>Governmental Activities:</u>				
Capital Assets Not Being Depreciated:				
Land and Land Improvements	\$ 3,910,035	\$ 409,798	\$	\$ 4,319,833
Total Capital Assets Not Being Depreciated	3,910,035	409,798		4,319,833
Capital Assets, Being Depreciated:				
Buildings	19,565,616			19,565,616
Other Equipment	1,842,213	47,952		1,890,165
Vehicles and Equipment	2,777,708	229,885		3,007,593
Infrastructure	19,402,876			19,402,876
Total Capital Assets Being Depreciated	43,588,413	277,837		43,866,250
Less Accumulated Depreciation For:				
Buildings	(5,035,850)	(443,771)		(5,479,621)
Other Equipment	(589,519)	(108,243)		(697,762)
Vehicles and Equipment	(1,011,495)	(251,276)		(1,262,771)
Infrastructure	(4,589,019)	(840,280)		(5,429,299)
Total Accumulated Depreciation	(11,225,883)	(1,643,570)		(12,869,453)
Total Capital Assets, Being Depreciated, Net	32,362,530	(1,365,733)		30,996,797
Governmental Activities Capital Assets, Net	\$ 36,272,565	\$ (955,935)	\$ 0	\$ 35,316,630

Note 3. Capital Assets (Continued)

Depreciation expense was charged to functions of the primary government as follows:

<u>Governmental Activities:</u>	
General Government	\$ 152,603
Protection to Persons and Property	22,851
General Health and Sanitation	421,422
Recreation and Culture	965,683
Roads, Including Depreciation of General Infrastructure Assets	81,011
Total Depreciation Expense - Governmental Activities	<u>\$ 1,643,570</u>

SCOTT COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2003
(Continued)

Note 4. Long-term Debt

Bonds outstanding of the Public Properties Corporation Fund are:

In September 1997, the Scott County Public Properties Corporation Fund issued \$3,415,000 of lease revenue refunding bonds, series 1997. The bonds were issued for advance refunding of the outstanding 1990 bonds maturing on and after January 1, 2002 to 2010. Interest is payable semi-annually on January 1 and July 1 of each year, and principal payments are due on January 1 of each year in the amounts stated below. The total principal outstanding was \$2,660,000 as of June 30, 2003.

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest
2004	\$ 330,000	\$ 124,735
2005	345,000	109,555
2006	360,000	93,513
2007	380,000	76,593
2008	395,000	58,733
2009-2010	850,000	60,830
Totals	<u>\$ 2,660,000</u>	<u>\$ 523,959</u>

The only change in long-term liabilities is the payment of principal on this debt issue for a reduction in debt from \$2,975,000 to \$2,660,000.

Note 5. Operating-Lease Agreement

The county has entered into the following operating lease agreement:

Description	Monthly Payment	Term of Agreement	Ending Date	Balance June 30, 2003
Copier	\$ 283	42 Months	August 2005	\$ 7,628

Note 6. Employee Retirement System

The Fiscal Court has elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost-sharing multiple-employer defined benefit pension plan, which covers all eligible full-time employees and provides for retirement, disability and death benefits to plan members. Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 6.34 percent. Hazardous covered employees are required to contribute 8 percent of their salary to the plan. The county's contribution rate for hazardous employees was 16.28 percent.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65. Aspects of benefits for hazardous employees include retirement after 20 years of service or age 55.

SCOTT COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2003
(Continued)

Note 6. Employee Retirement System (Continued)

Historical trend information showing the CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report. This report may be obtained by writing the Kentucky Retirement System, 1260 Louisville Road, Frankfort, KY 40601-6124, or by telephone at (502) 564-4646.

Note 7. Insurance

For the fiscal year ended June 30, 2003, Scott County was a member of the Kentucky Association of Counties' All Lines Fund (KALF). KALF is a self-insurance fund and was organized to obtain lower cost coverage for general liability, property damage, public officials' errors and omissions, public liability, and other damages. The basic nature of a self-insurance program is that of a collectively shared risk by its members. If losses incurred for covered claims exceed the resources contributed by the members, the members are responsible for payment of the excess losses.

Note 8. Changes in Accounting Principles and Prior Period Adjustments

The county has elected to implement Governmental Accounting Standards Board (GASB) Statements 33, 34, and 37, as they relate to the modified cash basis of accounting as described in Note 1, which has altered the format and content of the basic financial statements. The beginning net asset balance for the governmental-activities was \$50,587,857 and the beginning fund balance for the governmental funds was \$17,290,292 for an increase of \$33,297,565. The primary reason for this change was the inclusion of capital assets previously omitted. The beginning net asset balance of business-type activities was not affected by this change since it was comprised solely of cash.

Note 9. Estimated Infrastructure Historical Cost

Infrastructure historical cost is an estimate. The primary government estimated the year infrastructure was built by determining when a major reconstruction had been done on infrastructure. This estimate was used to calculate the infrastructure historical cost by determining current year construction cost and deflating it back to the estimated year of construction or reconstruction.

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SCOTT COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information

For The Year Ended June 30, 2003

SCOTT COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information

For The Year Ended June 30, 2003

	GENERAL FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Taxes	\$ 11,203,000	\$ 11,203,000	\$ 13,950,399	\$ 2,747,399
Excess Fees	1,042,250	1,042,250	1,593,342	551,092
Licenses and Permits	203,000	203,000	231,378	28,378
Intergovernmental Revenue	503,052	503,052	735,157	232,105
Charges for Services	530,000	530,000	520,733	(9,267)
Miscellaneous	119,600	119,600	1,445,895	1,326,295
Interest	312,000	312,000	495,593	183,593
Total Revenues	13,912,902	13,912,902	18,972,497	5,059,595
EXPENDITURES				
General Government	4,865,507	4,912,824	4,085,135	827,689
Protection to Persons and Property	3,703,963	3,971,612	3,841,243	130,369
General Health and Sanitation	585,897	585,898	486,361	99,537
Social Services	408,825	952,325	902,442	49,883
Recreation and Culture	1,501,550	1,615,801	1,598,147	17,654
Airports				
Debt Service	390,000	6,045	802	5,243
Capital Projects	4,850,000	4,850,000	1,462,589	3,387,411
Administration	4,542,667	3,569,449	2,657,441	912,008
Total Expenditures	20,848,409	20,463,954	15,034,160	5,429,794
Excess (Deficiency) of Revenues over Expenditures Before Financing Sources (Uses)	(6,935,507)	(6,551,052)	3,938,337	10,489,389
OTHER FINANCING SOURCES (USES)				
Transfers to Other Funds	(5,564,493)	(5,948,948)	(3,794,455)	2,154,493
Total Other Financing Sources (Uses)	(5,564,493)	(5,948,948)	(3,794,455)	2,154,493
Net Changes in Fund Balances	(12,500,000)	(12,500,000)	143,882	12,643,882
Fund Balances - Beginning	12,500,000	12,500,000	16,556,960	4,056,960
Fund Balances - Ending	\$ 0	\$ 0	\$ 16,700,842	\$ 16,700,842

SCOTT COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information
For The Year Ended June 30, 2003
(Continued)

	ROAD FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Intergovernmental Revenue	\$ 682,700	\$ 682,700	\$ 766,044	\$ 83,344
Miscellaneous	12,100	12,100	126,054	113,954
Interest	2,000	2,000	2,821	821
Total Revenues	696,800	696,800	894,919	198,119
EXPENDITURES				
Roads	3,168,240	3,168,240	2,272,907	895,333
Road Facilities				
Capital Projects	400,000	400,000	37,193	362,807
Adminisration	740,000	740,000	354,587	385,413
Total Expenditures	4,308,240	4,308,240	2,664,687	1,643,553
Excess (Deficiency) of Revenues over Expenditures Before Financing Sources (Uses)				
	(3,611,440)	(3,611,440)	(1,769,768)	1,841,672
OTHER FINANCING SOURCES (USES)				
Transfers from Other Funds	3,611,440	3,611,440	1,900,000	(1,711,440)
Total Other Financing Sources (Uses)	3,611,440	3,611,440	1,900,000	(1,711,440)
Net Changes in Fund Balances			130,232	130,232
Fund Balances - Beginning			93,902	93,902
Fund Balances - Ending	\$ 0	\$ 0	\$ 224,134	\$ 224,134

SCOTT COUNTY
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

June 30, 2003

Budgetary Information

Annual budgets are adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer.

The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

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SCOTT COUNTY
COMBINING BALANCE SHEET - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information

For The Year Ended June 30, 2003

SCOTT COUNTY
COMBINING BALANCE SHEET - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information

For The Year Ended June 30, 2003

	Jail Fund	LGEA Fund	McCracken Trust Fund	John Graves Ford Memorial Hospital Fund	Total Non-Major Governmental Funds
ASSETS					
Cash and Cash Equivalents	\$ 115,751	\$ 107,925	\$ 84,207	\$ 421,544	\$ 729,427
Total assets	<u>\$ 115,751</u>	<u>\$ 107,925</u>	<u>\$ 84,207</u>	<u>\$ 421,544</u>	<u>\$ 729,427</u>
FUND BALANCES					
Fund Balances:					
Reserved For:					
Encumbrances	\$ 1,000	\$	\$	\$	\$
Permanent Fund			81,510		
Unreserved:					
Permanent Fund			2,697		
Special Revenue Fund	<u>114,751</u>	<u>107,925</u>		<u>421,544</u>	<u>644,220</u>
Total Fund Balances	<u>\$ 115,751</u>	<u>\$ 107,925</u>	<u>\$ 84,207</u>	<u>\$ 421,544</u>	<u>\$ 729,427</u>
Total Liabilities and Fund Balances	<u>\$ 115,751</u>	<u>\$ 107,925</u>	<u>\$ 84,207</u>	<u>\$ 421,544</u>	<u>\$ 729,427</u>

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SCOTT COUNTY
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information

For The Year Ended June 30, 2003

SCOTT COUNTY
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information

For The Year Ended June 30, 2003

	Jail Fund	LGEA Fund	McCracken Fund	Hospital Fund	Total Non-Major Governmental Funds
REVENUES					
Intergovernmental	\$ 354,348	\$ 64,490	\$	\$	\$ 418,838
Charges for Services	52,010				52,010
Miscellaneous	29,470				29,470
Interest		1,800	3,654	17,021	22,475
Total Revenues	<u>435,828</u>	<u>66,290</u>	<u>3,654</u>	<u>17,021</u>	<u>522,793</u>
EXPENDITURES					
General Government					
Protection to Persons and Property	1,366,478				1,366,478
Social Services			1,971	32,194	34,165
Roads		36,250			36,250
Administration	434,153				434,153
Total Expenditures	<u>1,800,631</u>	<u>36,250</u>	<u>1,971</u>	<u>32,194</u>	<u>1,871,046</u>
Excess (Deficiency) of Revenues over Expenditures Before Financing Sources (Uses)	<u>(1,364,803)</u>	<u>30,040</u>	<u>1,683</u>	<u>(15,173)</u>	<u>(1,348,253)</u>
Other Financing Sources (Uses)					
Transfers from Other Funds	1,510,000				1,510,000
Transfers to Other Funds	(69,295)				(69,295)
Total Other Financing Sources (Uses)	<u>1,440,705</u>				<u>1,440,705</u>
Net Change in Fund Balances	75,902	30,040	1,683	(15,173)	92,452
Fund Balances - Beginning	39,849	77,885	82,524	436,717	636,975
Fund Balances - Ending	<u>\$ 115,751</u>	<u>\$ 107,925</u>	<u>\$ 84,207</u>	<u>\$ 421,544</u>	<u>\$ 729,427</u>

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**REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER
FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable George H. Lusby, Scott County Judge/Executive
Members of the Scott County Fiscal Court

Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of Financial
Statements Performed In Accordance With Government Auditing Standards

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Scott County, Kentucky, as of and for the year ended June 30, 2003, which collectively comprise the County's basic financial statements, as listed in the table of contents and have issued our report thereon dated September 9, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether Scott County's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of material noncompliance that are required to be reported under Government Auditing Standards.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Scott County's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.



Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of Financial
Statements Performed In Accordance With Government Auditing Standards
(Continued)

This report is intended solely for the information and use of management, is not intended to be, and should not be used by anyone other than the specified parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", with a long horizontal flourish extending to the right.

Crit Luallen
Auditor of Public Accounts

Audit fieldwork completed -
September 9, 2004

**CERTIFICATION OF COMPLIANCE -
LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM**

SCOTT COUNTY FISCAL COURT

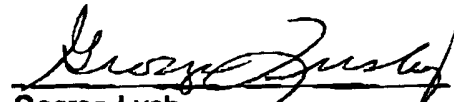
**For The Fiscal Year Ended
June 30, 2003**

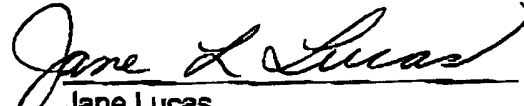
CERTIFICATION OF COMPLIANCE
LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM

SCOTT COUNTY FISCAL COURT

For The Fiscal Year Ended June 30, 2003

The Scott County Fiscal Court hereby certifies that assistance received from the Local Government Economic Assistance Program was expended for the purpose intended as dictated by the applicable Kentucky Revised Statutes.


George Lusby
County Judge/Executive


Jane Lucas
County Treasurer

